

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature		Printed Name		License Number

Auburn Hills Library

**Financial Report
with Supplemental Information
December 31, 2006**

Auburn Hills Library

Contents

Report Letter	I
Management's Discussion and Analysis	2-5
Basic Financial Statements	
Governmental Fund Balance Sheet/Statement of Net Assets	6
Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities	7
Notes to Financial Statements	8-12
Required Supplemental Information	13
Budgetary Comparison Statement - General Fund	14



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Auburn Hills Library Board
City of Auburn Hills, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Auburn Hills Library as of and for the year ended December 31, 2006, which collectively comprise the Auburn Hills Library's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Auburn Hills Library board. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Auburn Hills Library as of December 31, 2006 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

May 31, 2007

Auburn Hills Library

Management's Discussion and Analysis

Our discussion and analysis of the Auburn Hills Library's (the "Library") financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Library's financial statements.

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustments column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The third column presents the Library's operations on a full accrual basis, which provides both long- and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances.

Auburn Hills Library

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table below shows key financial information in a condensed format for the government-wide statement of net assets and the statement of activities:

	December 31	
	2006	2005
Assets		
Current assets	\$ 2,183,760	\$ 1,904,719
Capital assets - Net	<u>251,674</u>	<u>274,823</u>
Total assets	2,435,434	2,179,542
Liabilities		
Accounts payable	18,208	25,064
Accrued payroll	13,378	14,052
Other liabilities	1,422,319	1,338,855
Long-term debt	<u>297,254</u>	<u>160,906</u>
Total liabilities	<u>1,751,159</u>	<u>1,538,877</u>
Net Assets		
Invested in capital assets	251,674	274,823
Unrestricted	<u>432,601</u>	<u>365,842</u>
Total net assets	<u>\$ 684,275</u>	<u>\$ 640,665</u>
Revenue		
Property taxes	\$ 1,418,376	\$ 1,225,045
Other	<u>109,879</u>	<u>94,502</u>
Total revenue	1,528,255	1,319,547
Expenses - Library services	<u>1,484,645</u>	<u>1,350,416</u>
Change in Net Assets	<u>\$ 43,610</u>	<u>\$ (30,869)</u>

Auburn Hills Library

Management's Discussion and Analysis (Continued)

The Library as a Whole

- The Library reports net assets of \$684,275 this year on a full accrual basis, as compared to fund balance of \$729,855 on the modified accrual basis of accounting.
- The Library's primary source of revenue is from property taxes. For 2006, total tax collections were \$1,418,376. This represents approximately 93 percent of total revenue.
- Salaries and fringe benefits are the largest overall expenditure of the Library. For 2006, this expenditure was \$725,050, representing approximately 48 percent of the Library's total expenditures.
- Total expenditures for the entire year under the modified accrual basis of accounting were approximately \$1,325,000.
- The Library's conversion to meet GASB 34 standards, which includes capitalization of Library-owned assets and associated depreciation expense, is reflected in the statement of activities on page 7 of this financial report.

The Library's Fund

Our analysis of the Library's General Fund is included on pages 6 and 7 in the first column of the respective statements. The fund column provides detailed information about the General Fund on a modified accrual method, which is a short-term perspective measuring the flow of financial resources, not the Library's operations on a full accrual basis of accounting, which provides a longer-term measurement of total economic resources. The Library's only fund is the General Fund. The fund balance of the General Fund increased by approximately \$203,000 for the year.

Library Budgetary Highlights

No amendments were made to the budget over the course of the year. The following is a summary of budgetary highlights:

- Interest on investments increased due to higher interest rates, more aggressive investing, and quicker tax settlements.
- Advertising expenses were significantly higher than originally budgeted due to the search for a new library director.
- The Library purchased 16 computers for use by the public and by library staff this year.

Auburn Hills Library

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of the year, the Library had approximately \$252,000 invested in land, furniture, equipment, books, and materials. In 2006, the Library added approximately \$101,000 in new collection items consisting mainly of books, video materials, audio books, and music CDs.

It should be noted that the Library building itself is an asset of the City of Auburn Hills and, therefore, does not appear as an asset of the Library.

The Library had approximately \$297,000 of long-term debt. This represents an estimate of the Library's liability for compensated absences, as well as its potential exposure for pending property tax appeals. The Library accrues vested or accumulated sick, vacation, and paid time-off (PTO) leave when earned by the employees.

Economic Factors and Next Year's Budget and Rates

The Library's budget for the 2007 fiscal year increased from 2006. Property taxes were budgeted for an increase, penal fines continue to be budgeted by the best judgment of the Library, and state aid revenue could be less than budgeted due to the State's financial constraints. Also, the Library made its final payment to the City on the library expansion in December 2006, freeing up a significant amount of money for the 2007 budget. Expenditures were increased in a number of areas, but particularly in the budget for books and other materials. The new materials budget was targeted to allow the Library to meet Quality Service Audit Checklist (QSAC) Level II: Enhanced in 2007.

Contacting the Library's Management

If you have questions about this report or need additional information, we welcome you to contact the director, Karrie Waarala, at 248-364-6705 or via email at kwaarala@auburn-hills.lib.mi.us.

Auburn Hills Library

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2006

	General Fund - Modified Accrual Basis	Adjustments (Note 2)	Statement of Net Assets - Full Accrual Basis
Assets			
Investments (Note 3)	\$ 761,441	\$ -	\$ 761,441
Property taxes receivable (Note 1)	1,422,319	-	1,422,319
Capital assets - Net (Note 4)	-	251,674	251,674
Total assets	<u>\$ 2,183,760</u>	251,674	2,435,434
Liabilities			
Accounts payable	\$ 18,208	-	18,208
Accrued payroll	13,378	-	13,378
Deferred revenue (Note 1)	1,422,319	-	1,422,319
Long-term debt (Note 5)	-	297,254	297,254
Total liabilities	1,453,905	297,254	1,751,159
Fund Balance - Unreserved			
Designated for contributions	7,661	(7,661)	-
Undesignated	722,194	(722,194)	-
Total fund balance	<u>729,855</u>	<u>(729,855)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 2,183,760</u>		
Net Assets			
Invested in capital assets		251,674	251,674
Unrestricted		432,601	432,601
Total net assets		<u>\$ 684,275</u>	<u>\$ 684,275</u>

Auburn Hills Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2006

	General Fund - Modified Accrual Basis	Adjustments (Note 2)	Statement of Net Assets - Full Accrual Basis
Revenue			
Property taxes - City of Auburn Hills	\$ 1,418,376	\$ -	\$ 1,418,376
Contributions and donations	336	-	336
State penal fines	31,030	-	31,030
State aid	7,192	-	7,192
Interest and other	71,321	-	71,321
Total revenue	1,528,255	-	1,528,255
Expenditures			
Salaries	540,941	(5,272)	535,669
Fringe benefits	184,109	-	184,109
Supplies	37,865	-	37,865
Administrative	229,511	-	229,511
Computer charges	30,737	-	30,737
Communications	4,920	-	4,920
Rent	78,366	-	78,366
Memberships and dues	15,962	-	15,962
Capital outlay	155,202	(101,386)	53,816
Depreciation	-	124,535	124,535
Maintenance	6,408	-	6,408
Insurance	12,127	-	12,127
Tax refunds	-	141,620	141,620
Other	29,000	-	29,000
Total expenditures	1,325,148	159,497	1,484,645
Excess of Revenue Over (Under) Expenditures/Change in Net Assets	203,107	(159,497)	43,610
Fund Balance/Net Assets - Beginning of year	526,748	113,917	640,665
Fund Balance/Net Assets - End of year	<u>\$ 729,855</u>	<u>\$ (45,580)</u>	<u>\$ 684,275</u>

Note I - Nature of Organization and Summary of Significant Accounting Policies

The Auburn Hills Library (the "Library") is located in the City of Auburn Hills, Michigan. The Library is funded primarily through a tax levy, fines, and fees. Revenue is used to operate and staff the Library. The Library facility is owned by the City of Auburn Hills. The Library pays rent on a month-to-month basis.

The accounting policies of the Auburn Hills Library conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Library is governed by a six-member elected board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on these criteria, there are no component units of the Library that are to be included in the reporting entity.

Basis of Accounting

The Library follows the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Fines, contributions, and certain miscellaneous revenue are recorded when received.

Properties are assessed as of December 31 and the related property taxes become a lien on the following December 1. These taxes are billed on December 1 with the final collection date of February 28 before they are added to the county tax rolls.

Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at December 31. The 2005 taxable valuation for the City of Auburn Hills totaled approximately \$2,504,000,000 (a portion of which is abated and a portion of which is captured by the TIFA districts and Brownfield).

- b. There are .7041 mills levied for Library operating purposes, resulting in property tax revenue of approximately \$1,418,000.
- c. Payments for types of supplies that can be inventoried are recorded as expenditures at the time of purchase.

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

- d. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Investments - Investments are recorded at fair value.

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture, fixtures, and equipment	5 years
Library books and audiovisual materials	5 years

Budget Information - The annual budget is prepared by the library director during May or June for the next fiscal year. The budget is presented to the library board in June or July for adoption. Subsequent amendments are approved by the library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2006 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted for the Library's activity in total; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as prepared by the library board is included in the subtotals for total revenue and total expenditures in the required supplemental information section. The remaining budget-to-actual detail is used to provide additional analysis for management purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Reconciliation of Modified Accrual Financial Statements to the Full Accrual Financial Statements

Total fund balance and the net change in fund balance of the Library's General Fund differ from the net assets and change in net assets of the Library's activities reported in the governmental fund balance sheet/statement of net assets and the statement of governmental revenue, expenditures, and changes in fund balance/statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current focus of the governmental fund balance sheet and statement of governmental revenue, expenditures, and changes in fund balance.

The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Fund Balance - General Fund - Modified Accrual Basis	\$ 729,855
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	251,674
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(297,254)</u>
Net Assets - Full Accrual Basis	<u>\$ 684,275</u>
Excess of Revenue Over Expenditures - Modified Accrual Basis	\$ 203,107
Amounts reported in the statement of activities are different because:	
Depreciation is recorded as an expense in the statement of net assets	(124,535)
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance	101,386
General liability claims, as well as accumulated sick and vacation pay, are recorded when earned in the statement of activities	5,272
The change in the general liability related to tax tribunal claims is recorded when earned in the statement of activities	<u>(141,620)</u>
Change in Net Assets - Full Accrual Basis	<u>\$ 43,610</u>

Note 3 - Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated one bank for the deposit of its funds. The Library's investment policy as adopted by the City of Auburn Hills, in accordance with Public Act 196 of 1997, has authorized investment in all investments permissible under Michigan Compiled Laws 129.91 (Public Act 20 of 1943, as amended), as listed above. The Library's investment policies are in accordance with statutory authority.

The Library's investments are subject to risk, which is examined in more detail below:

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 761,441	Aaa	Moody's

Auburn Hills Library

Notes to Financial Statements December 31, 2006

Note 4 - Capital Assets

A summary of changes in general fixed assets is as follows:

	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Capital assets being depreciated:				
Furniture, fixtures, and equipment	\$ 162,708	\$ 18,842	\$ -	\$ 181,550
Library books and audiovisual materials	<u>585,151</u>	<u>82,544</u>	<u>108,423</u>	<u>559,272</u>
Total	747,859	101,386	108,423	740,822
Accumulated depreciation:				
Furniture, fixtures, and equipment	73,795	18,095	-	91,890
Library books and audiovisual materials	<u>399,241</u>	<u>106,440</u>	<u>108,423</u>	<u>397,258</u>
Total	<u>473,036</u>	<u>124,535</u>	<u>108,423</u>	<u>489,148</u>
Net capital assets	<u>\$ 274,823</u>	<u>\$ (23,149)</u>	<u>\$ -</u>	<u>\$ 251,674</u>

Note 5 - Long-term Debt

The long-term debt reported represents an estimate of the Library's potential exposure for pending property tax appeals and compensated absences.

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for these potential risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Required Supplemental Information

Auburn Hills Library

Budgetary Comparison Statement General Fund Year Ended December 31, 2006

	Original Budget	Ammended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Property taxes - City of Auburn Hills	\$ 1,315,810	\$ 1,315,810	\$ 1,418,376	\$ 102,566
Contributions and donations	-	-	336	336
State penal fines	28,000	28,000	31,030	3,030
State aid	10,000	10,000	7,192	(2,808)
Interest and other	31,000	31,000	71,321	40,321
Total revenue	1,384,810	1,384,810	1,528,255	143,445
Expenditures				
Salaries	561,200	561,200	540,941	20,259
Fringe benefits	202,085	202,085	184,109	17,976
Supplies	27,500	27,500	37,865	(10,365)
Administrative	229,511	229,511	229,511	-
Computer charges	28,000	28,000	30,737	(2,737)
Communications	6,000	6,000	4,920	1,080
Rent	84,114	84,114	78,366	5,748
Memberships and dues	14,000	14,000	15,962	(1,962)
Capital outlay	167,500	167,500	155,202	12,298
Maintenance	9,500	9,500	6,408	3,092
Insurance	12,000	12,000	12,127	(127)
Other	43,400	43,400	29,000	14,400
Total expenditures	1,384,810	1,384,810	1,325,148	59,662
Change in Fund Balance	-	-	203,107	203,107
Fund Balance - Beginning of year	365,360	278,360	526,748	248,388
Fund Balance - End of year	<u>\$ 365,360</u>	<u>\$ 278,360</u>	<u>\$ 729,855</u>	<u>\$ 451,495</u>